

ORIGINAL

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

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In the Matter

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Federal-State Joint Board
on
Universal Service

CC Docket No. 96-45

PETITION FOR RECONSIDERATION

GVNW Inc./Management
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SUMMARY

GVNW Inc./Management ("GVNW") requests the reconsideration and/or clarification of certain aspects of the Report and Order released May 8, 1997 implementing Section 254 of the Communications Act of 1934, as amended. GVNW is concerned that the Report and Order, as drafted, will not achieve Congressionally-mandated universal service because (i) the forward-looking cost methodology does not yield the appropriate level of federal funding for federally-mandated universal services; (ii) in several critical areas, accounting methodologies are unclear; (iii) toll limitation requirements are technically infeasible; (iv) universal service in areas served by new companies or companies acquiring high-cost areas will be jeopardized; and (v) the authority to designate eligible carriers is unclear. Accordingly, GVNW respectfully requests the Commission's reconsideration and revision of these issues to ensure that its Congressional mandate is fulfilled.

**Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554**

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Federal-State Joint Board)	CC Docket No. 96-45
on)	
Universal Service)	

**PETITION FOR RECONSIDERATION
GVNW Inc./Management**

GVNW Inc./Management ("GVNW") submits this filing to request the Commission to reconsider and/or clarify certain provisions in the Report and Order released May 8, 1997 in CC Docket No. 96-45 (reference FCC 97-157)(the "Report and Order").

Background

GVNW is a consulting firm that provides financial and regulatory consulting primarily to rural local exchange carriers. We have participated in all phases of the CC Docket No. 96-45 proceeding leading up to the Report and Order, released May 8, 1997.

Amount of Federal Support Under a Forward Looking Methodology

We ask the Commission to reconsider the provisions which establish the federal and state portion of the funding requirement for high cost support once the forward looking methodology is adopted. The Commission adopted a 25% federal share based on the assumption that only 25% of the loop cost is assigned to the interstate jurisdiction under the current Part 36 process as follows:

Accordingly, we must determine the federal and state shares of the costs of providing high cost service. We have concluded that the federal share of the difference between a carrier's forward looking economic cost of providing supported services and the national benchmark will be 25 percent. Twenty-five percent is the current interstate allocation factor applied to loop costs in the Part 36 separation process, and because loop costs will be the predominant cost that varies between high cost and non-high cost areas, this factor best approximates the interstate portion of universal service costs.¹

For high cost rural Local Exchange Carriers ("LECs"), the suggestion that current Part 36 rules assign approximately 25% of loop cost to interstate jurisdiction is inaccurate.

The Commission's statement appears to be based on the basic allocation rules for assigning loop plant to interstate and totally ignores the Part 36 Rules for assigning high loop cost to interstate (i.e. the current Universal Service Expense Adjustment rules contained in Subpart F of the Part 36 Rules.)

For our high loop cost client companies' the percentage assignment of the high cost portion of the loop cost to the interstate jurisdiction ranges from 89.96% to 99.63%, as depicted in the table below. (A more complete analyses of the assignment of the high cost portion of the loop to the interstate jurisdiction is included in Exhibit A). Note that in the analysis below, the companies that show "none" are companies with loop cost at or below 115% of the national average and, therefore, do not qualify for the expense adjustment to the interstate jurisdiction under the current rules.

¹ Report and Order, para. 269.

	Study Area Code	Study Area Name	High Cost Portion Of Loop	Interstate High Cost Portion	% Interstate High Loop Cost
1	472213	Albion Tel. Co. Inc.	679,653	670,872	98.71%
2	220344	Alma Tel. Co., Inc.	1,169,830	1,116,107	95.41%
3	613001	Arctic Slope Tel. Association Coop. Inc.	1,020,089	1,003,092	98.33%
4	351105	Ayrshire Fmrs. Mut. Tel. Co.	14,357	12,920	89.99%
5	492259	Baca Valley Tel. Co.	450,237	444,096	98.64%
6	532359	Beaver Creek Cooperative Tel. Co.	515,601	478,839	92.87%
7	482235	Blackfoot Tel. Cooperative Inc.	1,307,450	1,247,056	95.38%
8	613003	Bristol Bay Telephone Coop. Inc.	584,092	569,552	97.51%
9	472215	Cambridge Tel. Co., Inc.-Id	366,729	358,522	97.76%
10	532362	Canby Telephone Association	None	None	None
11	532371	Cascade Utilities Inc.	66,207	59,590	90.01%
12	483310	Central Montana Communications, Inc.	2,577,930	2,512,485	97.46%
13	512289	Chugwater Telephone Company	44,984	42,672	94.86%
14	552349	Churchill Co. Tel. & Tel. System	1,428,824	1,331,524	93.19%
15	421865	Citizens Telephone Co - Missouri	434,119	400,743	92.31%
16	483308	Clark Fork Telecommunications, Inc.	2,331,203	2,270,007	97.37%
17	532363	Clear Creek Mutual Telephone Co.	620,560	590,579	95.17%
18	532364	Colton Telephone Company	360,404	350,253	97.18%
19	442066	Dell Telephone Co-Op. Inc. - Tx	1,569,978	1,564,205	99.63%
20	492066	Dell Telephone Co-Op. Inc.-Nm	698,094	694,895	99.54%
21	512291	Dubois Telephone Exchange Inc.	1,068,522	1,050,439	98.31%
22	532369	Eagle Telephone System Inc.	228,694	225,313	98.52%
23	270429	East Ascension Tel. Co.	3,666,341	3,406,403	92.91%
24	341003	Egyptian Tel. Coop. Assn.	246,452	223,484	90.68%
25	462187	El Paso County Mutual Tel Co	223,981	201,579	90.00%
26	522412	Ellensburg Telephone Company	None	None	None
27	462188	Farmers Tel Co, Inc. - Colorado	188,254	185,046	98.30%
28	421888	Grand River Mutual Tel Corp - Mo	887,636	798,880	90.00%
29	351888	Grand River Mut. Tel. Corp.-la	None	None	None
30	200259	Hardy Tel. Co.	1,087,032	1,063,716	97.86%
31	341026	Harrisonville Tel. Co.	685,934	617,361	90.00%
32	532376	Helix Telephone Company	210,692	208,396	98.91%
33	341032	Home Tel. Co.-St. Jacob	404,303	396,374	98.04%
34	522419	Hood Canal Telephone Company	209,106	200,496	95.88%
35	482242	Interbel Tel. Cooperative Inc.	1,428,828	1,416,580	99.14%
36	421901	Kingdom Telephone Company	951,145	914,275	96.12%
37	341045	Leaf River Tel. Co.	140,927	135,589	96.21%
38	552351	Lincoln County Telephone System Inc.	82,046	73,838	90.00%
39	482244	Lincoln Tel. Co. Inc.	28,292	25,462	90.00%
40	341049	Madison Tel. Co.	488,344	475,862	97.44%
41	452226	Midvale Telephone Exchange, Inc.-Arizona	338,162	334,282	98.85%
42	472226	Midvale Tel. Exch. Inc.	428,410	424,688	99.13%
43	532226	Midvale Tel. Exch. Inc. - Or	147,167	145,384	98.79%
44	532383	Molalla Telephone Company	825,037	778,195	94.32%
45	532384	Monitor Cooperative Telephone Co	136,021	130,336	95.82%
46	532385	Monroe Telephone Company	146,864	139,398	94.92%
47	341058	Montrose Mutual Tel. Co.	69,856	62,870	90.00%
48	532387	Nehalem Telephone And Telegraph	None	None	None
49	482247	Nemont Telephone Coop.- Montana	3,413,106	3,300,793	96.71%
50	532388	North State Telephone Company - Or	28,643	25,778	90.00%
51	532389	Oregon Telephone Corporation	92,086	82,880	90.00%
52	532390	Oregon-Idaho Utilities, Inc.	1,536,347	1,529,913	99.58%
53	613019	Otz Telephone Cooperative, Inc.	321,079	297,680	92.71%
54	462196	Peetz Coop. Tel. Co.	92,785	91,037	98.12%
55	532392	Pine Telephone System Inc. - Or	482,779	476,108	98.62%
56	532393	Pioneer Telephone Cooperative	65,772	59,213	90.03%
57	330937	Price County Tel. Co.	460,795	422,710	91.73%

	Study Area Code	Study Area Name	High Cost Portion Of Loop	Interstate High Cost Portion	% Interstate High Loop Cost
58	482251	Range Tel. Coop Inc.-Mt	1,584,043	1,550,958	97.91 %
59	512251	Range Tel. Cooperative Inc.-Wy	3,175,940	3,031,367	95.45 %
60	552356	Rio Virgin Telephone Company	31,693	28,513	89.96 %
61	472232	Rockland Tel. Co.,Inc.	265,317	262,334	98.88 %
62	532375	Roome Telecommunications Inc.	293,901	287,527	97.83 %
63	492272	Roosevelt County Rural Tel. Coop.,Inc.	820,032	805,310	98.20 %
64	472233	Rural Telephone Company - Id	258,402	254,950	98.66 %
65	552233	Rural Telephone Company - Nv	437,777	433,214	98.96 %
66	411826	Rural Tel. Service Co.,Inc.	2,569,715	2,508,751	97.63 %
67	532397	Scio Mutual Tel. Association	332,384	316,676	95.27 %
68	341025	Shawnee Tel. Co.	138,315	124,475	89.99 %
69	542338	Sierra Telephone Company, Inc.	3,463,963	3,303,287	95.36 %
70	482254	Southern Montana Tel. Co.	450,168	442,418	98.28 %
71	453334	Table Top Telephone Company, Inc.	391,720	356,519	91.01 %
72	542332	The Ponderosa Telephone Company	4,834,569	4,766,398	98.59 %
73	542339	The Siskiyou Telephone Co.	2,127,926	2,090,322	98.23 %
74	522447	Toledo Telephone Company Inc.	343,888	328,522	95.53 %
75	532378	Trans-Cascades Telephone Company	230,221	228,961	99.45 %
76	482257	Triangle Tel. Cooperative Assn. Inc.	306,535	275,900	90.01 %
77	613023	United Utilities Inc.	2,343,857	2,301,475	98.19 %
78	381637	West River Telecommunications Cooperativ	422,286	380,062	90.00 %
79	522453	Yelm Telephone Company	307,928	277,148	90.00 %
80	613025	Yukon Telephone Company, Inc.	183,192	179,035	97.73 %
Total For Listed Rural Companies			62,365,554	60,172,487	96.48 %

The table above focuses on the portion of the loop cost that is considered "high cost" under the current rules (i.e., that portion over 115% of the national average). This is the appropriate portion of the loop cost to compare to the future methodology, because it is only the high cost portion of the forward looking cost that will be eligible for support (the portion in excess of the national benchmark). To further illustrate the inaccuracy of the Commission's assumption with regard to the loop cost recovery percentage, the table below illustrates the portion of the total loop cost assigned to the interstate jurisdiction under the current Part 36 Rules. (A more complete analysis of this is included in exhibit B).

	Study Area Code	Study Area Name	Loop Cost USF Unseparated Rev. Req.	Interstate Portion of Loop Cost	% Interstate Assignment Loop Cost
1	472213	Albion Tel. Co. Inc.	968,204.71	743,010	76.74 %
2	220344	Alma Tel. Co., Inc.	2,935,422.27	1,557,505	53.06 %

	Study Area Code	Study Area Name	Loop Cost USF Unseparated Rev. Req.	Interstate Portion of Loop Cost	% Interstate Assignment Loop Cost
3	613001	Arctic Slope Tel. Association Coop. Inc.	1,578,622.22	1,142,725	72.39%
4	351105	Ayrshire Fmrs. Mut. Tel. Co.	117,777.98	38,775	32.92%
5	492259	Baca Valley Tel. Co.	651,937.29	494,521	75.85%
6	532359	Beaver Creek Cooperative Tel. Co.	1,723,231.74	780,747	45.31%
7	482235	Blackfoot Tel. Cooperative Inc.	3,292,170.15	1,743,236	52.95%
8	613003	Bristol Bay Telephone Coop. Inc.	1,061,773.57	688,972	64.89%
9	472215	Cambridge Tel. Co., Inc.-Id	636,424.91	425,946	66.93%
10	532362	Canby Telephone Association	1,804,857.89	451,214	25.00%
11	532371	Cascade Utilities Inc.	2,603,459.59	693,903	26.65%
12	483310	Central Montana Communications, Inc.	4,728,066.62	3,050,019	64.51%
13	512289	Chugwater Telephone Company	120,979.13	61,670	50.98%
14	552349	Churchill Co. Tel. & Tel. System	4,627,173.64	2,131,112	46.06%
15	421865	Citizens Telephone Co - Missouri	1,530,329.20	674,795	44.09%
16	483308	Clark Fork Telecommunications, Inc.	4,342,206.15	2,772,758	63.86%
17	532363	Clear Creek Mutual Telephone Co.	1,605,349.34	836,776	52.12%
18	532364	Colton Telephone Company	693,809.82	433,605	62.50%
19	442066	Dell Telephone Co-Op. Inc. - Tx	1,759,678.85	1,611,630	91.59%
20	492066	Dell Telephone Co-Op. Inc.-Nm	803,229.72	721,178	89.78%
21	512291	Dubois Telephone Exchange Inc.	1,662,480.49	1,198,928	72.12%
22	532369	Eagle Telephone System Inc.	339,829.58	253,096	74.48%
23	270429	East Ascension Tel. Co.	12,206,035.18	5,541,327	45.40%
24	341003	Egyptian Tel. Coop. Assn.	1,000,971.51	412,114	41.17%
25	462187	El Paso County Mutual Tel Co	1,009,640.91	397,994	39.42%
26	522412	Ellensburg Telephone Company	5,100,684.43	1,275,171	25.00%
27	462188	Farmers Tel Co, Inc. - Colorado	293,675.31	211,401	71.98%
28	421888	Grand River Mutual Tel Corp - Mo	4,855,932.30	1,790,954	36.88%
29	351888	Grand River Mut. Tel. Corp.-Id	1,650,414.57	412,604	25.00%
30	200259	Hardy Tel. Co.	1,852,979.19	1,255,203	67.74%
31	341026	Harrisonville Tel. Co.	5,420,177.72	1,800,922	33.23%
32	532376	Helix Telephone Company	286,115.29	227,252	79.43%
33	341032	Home Tel. Co.-St. Jacob	664,856.18	461,512	69.42%
34	522419	Hood Canal Telephone Company	491,943.85	271,205	55.13%
35	482242	Interbel Tel. Cooperative Inc.	1,831,371.61	1,517,216	82.85%
36	421901	Kingdom Telephone Company	2,162,775.48	1,217,182	56.28%
37	341045	Leaf River Tel. Co.	316,343.49	179,444	56.72%
38	552351	Lincoln County Telephone System Inc.	651,149.31	216,114	33.19%
39	482244	Lincoln Tel. Co. Inc.	313,128.96	96,671	30.87%
40	341049	Madison Tel. Co.	898,315.71	578,355	64.38%
41	452226	Midvale Telephone Exchange, Inc.-Arizona	465,581.62	366,137	78.64%
42	472226	Midvale Tel. Exch. Inc.	550,687.25	455,257	82.67%
43	532226	Midvale Tel. Exch. Inc. - Or	205,734.64	160,026	77.78%
44	532383	Molalla Telephone Company	2,363,501.49	1,162,811	49.20%
45	532384	Monitor Cooperative Telephone Co	322,864.91	177,047	54.84%
46	532385	Monroe Telephone Company	392,275.62	200,751	51.18%
47	341058	Montrose Mutual Tel. Co.	489,255.92	167,720	34.28%
48	532387	Nehalem Telephone And Telegraph	643,119.57	160,780	25.00%
49	482247	Nemont Telephone Coop.- Montana	7,104,564.88	4,223,657	59.45%
50	532388	North State Telephone Company - Or	172,062.06	61,633	35.82%
51	532389	Oregon Telephone Corporation	584,909.20	206,086	35.23%
52	532390	Oregon-Idaho Utilities, Inc.	1,747,760.75	1,582,767	90.56%
53	613019	Otz Telephone Cooperative, Inc.	1,089,882.57	489,881	44.95%
54	462196	Pestz Coop. Tel. Co.	150,209.28	105,393	70.16%
55	532392	Pine Telephone System Inc. - Or	701,906.61	530,890	75.64%
56	532393	Pioneer Telephone Cooperative	3,921,505.07	1,023,146	26.09%
57	330937	Price County Tel. Co.	1,711,850.99	735,474	42.96%
58	482251	Range Tel. Coop Inc.-Mt	2,671,110.13	1,822,725	68.24%
59	512251	Range Tel. Cooperative Inc.-Wy	7,928,181.99	4,219,428	53.22%
60	552356	Rio Virgin Telephone Company	1,107,047.54	297,351	26.86%

	Study Area Code	Study Area Name	Loop Cost USF Unseparated Rev. Req.	Interstate Portion of Loop Cost	% Interstate Assignment Loop Cost
61	472232	Rockland Tel. Co., Inc.	363,309.97	286,832	78.95%
62	532375	Roome Telecommunications Inc.	503,315.25	339,881	67.53%
63	492272	Roosevelt County Rural Tel. Coop., Inc.	1,303,712.43	926,230	71.05%
64	472233	Rural Telephone Company - Id	371,822.90	283,305	76.19%
65	552233	Rural Telephone Company - Nv	587,766.44	470,711	80.08%
66	411826	Rural Tel. Service Co., Inc.	4,572,719.55	3,009,502	65.81%
67	532397	Scio Mutual Tel. Association	848,634.02	445,739	52.52%
68	341025	Shawnee Tel. Co.	1,496,792.58	464,094	31.01%
69	542338	Sierra Telephone Company, Inc.	8,744,169.12	4,623,339	52.87%
70	482254	Southern Montana Tel. Co.	704,722.03	506,057	71.81%
71	453334	Table Top Telephone Company, Inc.	1,548,782.60	645,784	41.70%
72	542332	The Ponderosa Telephone Company	7,073,556.54	5,326,145	75.30%
73	542339	The Siskiyou Telephone Co.	3,363,840.30	2,399,300	71.33%
74	522447	Toledo Telephone Company Inc.	848,710.15	454,728	53.58%
75	532378	Trans-Cascades Telephone Company	271,646.99	239,317	88.10%
76	482257	Triangle Tel. Cooperative Assn. Inc.	2,981,206.42	944,568	31.68%
77	613023	United Utilities Inc.	3,736,046.74	2,649,522	70.92%
78	381637	West River Telecommunications Cooperativ	3,178,952.51	1,069,229	33.63%
79	522453	Yelm Telephone Company	3,096,877.79	974,385	31.46%
80	613025	Yukon Telephone Company, Inc.	319,754.00	213,176	66.67%
Total For Listed Rural Companies			160,833,876.28	84,789,568	52.72%

While we would agree that the loop cost may be the single largest driver of cost differential between the high cost areas and the lower or average cost areas, we do not believe the other cost factors are so insignificant that they should be ignored. The switching cost is a major factor in the cost development of the facilities required to provide the services designated for support in Section 54.101(a) of the Rules. The table below shows the percentage of combined loop and switching cost assigned to the interstate jurisdiction for some of our client companies. We believe these significant costs should be included in the evaluation for determining the amount of support which should be funded through the federal support mechanisms.

	Study Area Code	Study Area Name	Combined Loop & Switching Cost	Interstate Loop & Switching Cost	% Interstate Loop & Switching Cost
1	472213	Albion Telephone Company	1,660,467	1,136,382	68.44%
2	613001	Arctic Slope Telephone	3,561,667	2,745,557	77.09%
3	351105	Ayrshire Telephone Company	399,147	157,245	39.40%

	Study Area	Study Area Name	Combined Loop & Switching Cost	Interstate Loop & Switching Cost	% Interstate Loop & Switching Cost
4	492259	Baca Valley Telephone	1,154,293	861,995	74.68%
5	532359	Beaver Creek Telephone Company	2,377,159	882,611	37.13%
6	482235	Blackfoot Telephone Cooperative	4,846,794	2,717,983	56.08%
7	613003	Bristol Bay Telephone Company	1,707,859	1,083,626	63.45%
8	472215	Cambridge Telephone Company	1,249,514	669,907	53.61%
9	532362	Canby Telephone Assn.	4,116,070	1,467,072	35.64%
10	532371	Cascade Utilities	4,775,572	1,417,868	29.69%
11	483310	Central Montana Communications	6,018,045	1,889,102	31.39%
12	512289	Chugwater Telephone Company	284,292	168,314	59.20%
13	552349	Churchill County Telephone	6,711,424	3,350,777	49.93%
14	421865	Citizens	2,536,193	1,129,708	44.54%
15	483308	Clark Fork Telecommunications	5,803,116	2,036,566	35.09%
16	532363	Clear Creek Mutual Telephone Company	2,107,963	1,024,414	48.60%
17	532364	Colton Telephone Company	901,377	643,370	71.38%
18	492066	Dell Telephone Coop. (Nm)	1,191,709	904,780	75.92%
19	442066	Dell Telephone Coop. (Tx)	2,502,135	2,021,905	80.81%
20	512291	Dubois Telephone Exchange	2,456,116	2,120,587	86.34%
21	532369	Eagle Telephone System Inc.	556,167	399,600	71.85%
22	270429	East Ascension Telephone Co. Inc.	17,989,754	6,202,251	34.48%
23	241003	Egyptian Telephone Cooperative	1,691,695	783,960	46.34%
24	462187	El Paso County Telephone Company	1,220,919	521,970	42.75%
25	522412	Ellensburg Tel. Co.	9,472,337	3,537,362	37.34%
26	462188	Farmers Telephone Company	438,310	364,194	83.09%
27	351888	Grand River (Iowa)	2,778,703	939,146	33.80%
28	421888	Grand River (Mo)	7,630,234	2,679,463	35.12%
29	200529	Hardy Telephone Co	2,571,346	1,615,890	62.84%
30	532376	Helix Telephone Company	459,733	387,574	84.30%
31	341032	Home Telephone Company	1,509,381	685,012	45.38%
32	532377	Home Telephone Company	452,454	393,135	86.89%
33	482242	Interbel	2,423,262	1,366,868	56.41%
34	421901	Kingdom Telephone Co	3,055,655	1,583,724	51.83%
35	341045	Leaf River Telephone Company	1,134,050	620,898	54.75%
36	552351	Lincoln County Telephone System Inc.	1,129,304	558,419	49.45%
37	482244	Lincoln Telephone Company	501,656	243,952	48.63%
38	341049	Madison Telephone Company	1,765,101	919,090	52.07%
39	452226	Midvale Telephone Exch-Az	670,769	358,399	53.43%
40	472226	Midvale Telephone Exch-Id	880,928	751,048	85.26%
41	532226	Midvale Telephone Exch-Or	388,923	338,502	87.04%
42	532383	Molalla Telephone Company	3,806,047	2,117,857	55.64%
43	532384	Monitor Cooperative Telephone Company	763,834	373,792	48.94%
44	341058	Montrose Mutual Telephone Company	797,721	291,923	36.59%
45	532387	Nehalem Telephone & Telegraph	1,189,305	541,574	45.54%
46	482247	Nemont Valley Combined	11,812,597	6,706,833	56.78%
47	532388	North-State Telephone Co.	298,131	236,962	79.48%
48	532389	Oregon Telephone Corporation	994,110	550,706	55.40%
49	532390	Oregon-Idaho Utilities	2,206,185	1,504,852	68.21%
50	613019	Otz Telephone Co-Op	2,596,549	1,304,057	50.22%
51	462196	Petz Cooperative Telephone Co.	215,844	192,318	89.10%
52	532392	Pine Telephone System Inc.	1,215,725	831,086	68.36%
53	532393	Pioneer Telephone Cooperative	6,507,672	2,151,661	33.06%
54	330937	Price County Telephone Co.	2,140,963	1,153,761	53.89%
55	482251	Range Montana	3,815,981	2,426,975	63.60%
56	512251	Range/Rt Combined	10,593,308	6,701,438	63.26%
57	472232	Rockland Telephone Company	755,072	504,978	66.88%
58	492272	Roosevelt County Telephone	1,857,394	1,247,473	67.16%
59	472233	Rural Telephone Co	741,030	503,958	68.01%
60	552233	Rural Telephone Company	933,380	653,599	70.02%
61	532397	Scio Mutual Telephone Association	1,257,431	560,852	44.60%

	Study Area	Study Area Name	Combined Loop & Switching Cost	Interstate Loop & Switching Cost	% Interstate Loop & Switching Cost
62	341825	Shawnee Tel. Co.	2,893,229	1,005,074	34.74%
63	542339	Siskiyou Telephone	5,164,413	3,013,648	58.35%
64	482254	So Montana Telephone	1,167,677	777,591	66.59%
65	453334	Table Top Telephone Company Inc.	2,849,284	1,057,844	37.13%
66	542332	The Ponderosa Telephone Company	11,140,071	6,426,384	57.69%
67	482257	Triangle Telephone Cooperative	5,118,075	2,430,493	47.49%
68	381637	West River Telecommunications	5,151,840	1,793,709	34.82%
69	522453	Yelm Telephone Company	5,707,278	1,829,939	32.06%
70	613025	Yukon Telephone Company Inc.	974,734	738,318	75.75%
		Total	209,746,477	103,309,881	49.25%

The Commission's discussion of the history of the 25% allocation factor in paragraph 270 of the Report and Order is somewhat misleading in that it ignores the current universal service fund procedures as part of the support mechanism required to meet the four principles adopted by the CC Docket No. 80-286 Joint Board. The record in that proceeding demonstrates that a transition to a 25% allocator without a corresponding mechanism for the high cost companies would be unworkable.

We recommend the Commission modify its decision to provide that all costs above "benchmark" involved in providing the federally-defined universal services are to be funded from the federal universal service fund. If the states require rates that result in individual company customer revenues below the benchmark, or desire to add additional services to the list of required services for universal service, the cost of these changes should be funded through state universal service mechanisms.

The Commission correctly recognizes that there is significant intrastate support built into the individual state pricing and recovery mechanisms. The Commission believes the states will fulfill their role in providing the high cost mechanisms to address the state support. In light of the significant support requirements which are already assigned to the intrastate jurisdiction, it does not seem logical for the Commission to now adopt a position that results in a massive shift in the amount of

costs assigned to the intrastate jurisdiction for the states to address. Congress has defined Universal Service as a Federal objective. While the states recognize their obligation to provide appropriate universal service funding mechanisms, it would appear counter productive for the Commission to impose a significant burden on the states. Given the size of this burden, the states will have a difficult time addressing the requirements without raising rates to a level that may be contrary to the universal service objectives set forth in the Act.

Corporate Operations Expense Limitation

GVNW asks the Commission to reconsider the methodology it adopted in Part 36.621(a)(4) related to the limitation on the amount of Corporate Expense which will be allowable for determining high cost loop support.

First, questions arise regarding the interpretation of these rules. It appears that the amount of corporate operations expense being addressed in the new rule is the total (subject to separations) amount from Accounts 6710 and 6720. This allowance would be the amount used by the fund administrator to determine the amount per loop that will be used in the algorithm, and only the amount assigned to the Category 1.3 loops will be recoverable from the support mechanism. An alternative interpretation is that the amount allowable for support is that portion assigned to loop cost in NECA's USF algorithm (AL19)².

An evaluation of the formulas prescribed in Sections 36.621(a)(4)(A)&(B) of the Commission's Rules reveal that the absolute amount of corporate expense allowance actually declines as the company size increases from approximately 6,850

² See NECA's October 1, 1996 Universal Service Fund Data Collection filing in Docket 96-286.

loops to 10,000 loops. The amount increases as the company size increases above 10,000 loops, and at approximately 12,900 loops' the allowance returns to that allowed for a 6,700 loop company. Following are some illustrations based on information included in NECA's USF filing made on October 1, 1996.

<u>Company Name</u>	<u>Total Loops</u>	<u>Corporate Allowance</u>
Merrimack County Tel. Co.	6,846	\$1,268,608
Ellijay Tel. Co.	10,023	\$984,820
Hill Country Telephone Co-op. Inc.	12,100	\$1,188,898

We ask the Commission to reconsider the formula to address this situation which adversely and unfairly limits the amount of corporate operations expense for companies with between 6,850 and 12,900 loops.

The Commission must also reconsider the disproportionate impact of the formula on the very smallest of the exchange carriers. Following is a summary of the average impact on the small LECS using the data filed by NECA in its October 1, 1996 USF filing as the base for the computations, it is clear that smaller LECs are significantly disadvantaged:

<u>Company Size</u>	<u>Average Impact Per Loop Per Month</u>
Up to 200 USF Loops	\$21.56
201 - 500 USF Loops	\$4.85
501 - 1,000 USF Loops	\$2.16
1,001 - 2,000 USF Loops	\$1.07

The formula as prescribed does not recognize that there is a minimum amount of

corporate operations expense which must be incurred by a stand alone company in order to meet Federal regulatory requirements, and maintain a viable "going concern" operation. Certain functions must be performed regardless of the size of the company. For example, the following functions must be performed and, according to the Part 32 Accounting rules, the costs must be recorded in the Corporate Operations Accounts:

- a general manager and secretarial support;
- financial accounting and regulatory accounting functions;
- annual audit requirements;
- cost separations study;
- maintaining relations with government, regulators, other companies and the general public, including preparing and presenting information for regulatory purposes, such as tariff and service cost filings, and negotiating contracts;
- information management;
- legal costs;
- directors costs

We ask the Commission to revise the formula to allow a minimum allowance for corporate operations expense for the small companies. We believe this can be done with minimal impact on the total fund size. We have priced out the impact on the fund using the data from NECA's October 1, 1996 USF Filing. Following is a table summarizing the impact on the pool of implementing the Corporate Operations Expense Allowance as prescribed, then modifying it to allow a minimum level for

small companies. A price out of the impact of the prescribed rule on each of the cost companies is included as Exhibit C to these comments.

<u>Description</u>	<u>Calculated Pool Size</u>	<u>Comparison to Base</u>	<u>Comparison to Prescribed</u>
USF for all Cost Companies Per NECA's Submission	\$767,185,831	\$0	\$0
USF Incorporating Corporate Allowance as Prescribed	\$730,419,796	\$36,766,035	\$0
\$350,000 Minimum Allowance	\$731,822,686	\$35,363,145	\$1,402,890
\$300,000 Minimum Allowance	\$731,532,623	\$35,653,208	\$1,112,827
\$250,000 Minimum Allowance	\$731,261,836	\$35,923,995	\$842,040
\$200,000 Minimum Allowance	\$731,009,988	\$36,175,843	\$590,192
\$125,000 Minimum Allowance	\$730,634,746	\$36,551,085	\$214,950

Based on this analysis, we recommend the Commission modify the formula to allow a minimum of \$300,000 of Corporate Operations Expense for the support computation. This will have an impact of less than two tenths of 1% on the total pool while mitigating shifts to the intrastate jurisdiction as high as \$96.27 per line per month.

Local Switching Support - Definition of "Annual Unseparated Local Switching Revenue Requirement"

Section 54.301 of the Rules prescribes the new method for determining local switching support. The formula calls for the carrier's annual unseparated local switching revenue requirement to be multiplied by the local switching support factor. However, the Rules do not provide the methodology for developing the annual

unseparated local switching revenue requirement. There are several methods currently used in the industry to estimate this revenue requirement. We ask the Commission to clarify which of these methods are acceptable, and, if none are acceptable, to prescribe the methodology the Commission intends companies to use. Following is a brief description of some alternative methods:

1. **Part 36 Basis** - Perform a special Part 36 study isolating the costs associated with local switching investment. This can be done in a Part 36 cost study by assigning 100% of the local switching investment to a separate column (as if it were a separate jurisdiction). The cost study run will let the Part 36 rules assign all of the costs driven by the investment. The interstate authorized rate of return should be used for developing the revenue requirement.
2. **Interstate Part 69 Basis** - Divide the interstate local switching revenue requirement by the interstate local switching factor that was used to assign the investment to interstate. We favor this approach because of its simplicity.
3. **Total Part 69 Basis** - Perform a Part 69 study on the unseparated costs subject to separations.
4. **Annual Charge Approach** - Divide the interstate local switching revenue requirement by the interstate switching investment to develop an annual carrying charge. Multiply the total unseparated local switching investment by the annual charge factor to develop the unseparated local switching revenue

requirement.

5. **NECA USF Loop Approach** - Under current Part 36 Rules, an unseparated loop cost is developed using historical data. NECA calculates this annually based on information collected from the Local Exchange Carriers. A similar methodology could be used to develop the unseparated local switching requirement, but this methodology would likely introduce an undesirable lag in the process similar to the lag which has caused so many problems with the loop support mechanism.

Long Term Support

Section 54.303 of the Commission's Rules addresses the new procedures for Long Term Support (LTS). Several aspects of this Rule are unclear. Some of the specific items require clarification, and possibly reconsideration.

Calculation of LTS

It is not clear how the Commission intends the initial year's LTS to be calculated. It appears that for 1998, the 1997 LTS will be used as the base, then adjusted for the annual percentage change in national average loop cost. Three alternative methods for determining the 1997 LTS amounts have been discussed within the industry, and it is not clear which method the Commission endorses. The three methods are as follows:

1. **NECA total common line pool method** - Under this approach, the percentage of the NECA pool LTS to the

total common line pool would be applied to each participant's total common line requirement to determine that participant's LTS for the year. For example if 40% of the 1997 NECA pool were funded through LTS payments by the non-pooling LECs, each pool participant would establish its 1997 LTS by applying the 40% to its individual company common line revenue requirement. This amount would then be adjusted by the change in the national average loop cost to determine the 1998 support amount for the individual LEC.

2. A second alternative would be to develop the ratio of the LTS to the Carrier Common Line requirement. This method is similar to the first method, however the ratio would be developed using the carrier common line rather than the total common line (the carrier common line excludes the end user common line portion of the common line requirement).
3. A third alternative would be to develop each participant's LTS for 1997 based on the net settlement for common line received from the common line pool. Using this method, the individual participant would start with its total common line revenue requirement for 1997, subtract out the amount of revenue received for 1997 from subscriber line charges ("SLCs") and from carrier

common line charges ("CCL"), with the difference being the Long Term Support for the participant.

Withdrawal from Common Line Pool

It appears that Section 54.303 of the Rules requires an incumbent LEC to be in the common line pool on January 1, 1998 in order to be eligible to receive LTS. It is not clear if ongoing participation in the pool is required to continue receiving the support. It seems more logical to allow the non-participating LEC to continue receiving the funds to preserve competitively neutral, and to put the incumbent's support on a basis consistent with other LECs. Note that if an incumbent exits the common line pool in 1999, the competitive carriers would be receiving support in 1999 based on the incumbent's prior level of support, and the non-rural LECs will be receiving support based on forward looking costs which contains a component related to LTS. We recommend the Commission clarify that continued pool participation is not a requirement for receiving LTS.

Option For Forward Looking Methodology

If it is determined that a non-pooling incumbent LEC is not eligible for LTS payments, we ask the Commission to consider making an option available to the rural LEC to receive support based on the forward looking methodology. This would appear to be reasonable in light of the non-rural companies being able to receive support, including the LTS portion, through the forward looking methodology starting in the year 1999.

Accounting for the Contribution to the New Universal Service Fund

It is clear from Paragraph 825 of the Report and Order that the Commission intends to assign the cost of the contribution to the new universal service fund to the interstate jurisdiction and allow the recovery of that cost through rates charged on interstate services. The actual accounting for the contribution, however, was not specifically discussed. We ask the Commission to clarify this issue by prescribing the accounting and cost recovery treatment under the accounting, separations, and access charge rules. Arguments can be developed for the assignment of this cost to several different accounts, most of which do not accomplish the Commission's intent. Following is a brief discussion of several of the possibilities. The first approach is the one we recommend.

Account 7240 - Operating other Taxes

The contribution to the new universal service fund could be viewed as a tax assessed on a broad base of payers and collected to accomplish a specific social goal (i.e. universal service). Based on the Commission's August 21, 1991 letter of interpretation, costs can only be directly assigned to the interstate jurisdiction when the rules specifically allow for the direct assignment, or when a Commission order explicitly requires the direct assignment.³ We would interpret Paragraph 825 of the Report and Order as requiring such direct assignment. The expense of the contribution would then be assigned to the access elements and the interexchange category based on other investment as prescribed in Section 69.309 of the Commission's access charge Rules. We believe this methodology best accomplishes the Commission's intent.

³ Letter of interpretation (Ref DA 91-1059) released August 21, 1991.

Account 6540 - Access Expense

An argument could be made that the appropriate accounting for the contribution would be to Access Expense in Account 6540. The logic behind this is that currently, Universal Service is an access element in the Part 69 rules, and NECA annually makes a tariff filing to modify the rates charged to the interexchange carriers for universal service. Since the payments made are to cover the universal service access element, it might appear appropriate to assign the cost to access expense. This treatment, however, would contravene the Commission intent as access expense is assigned to the interexchange category in the Part 69 rules. Most of the smaller rural carriers do not offer interexchange services, so this approach would result in a confiscatory assignment to a category for which the carrier has no way to recover the cost. We ask the Commission to reject this approach.

Account 6620 - Services Expense

Some parties argue that the Telecommunications Relay Service ("TRS") program should be the model for the administration of the new universal service fund. If this argument were carried through the accounting and recovery treatment of the universal service contribution on the same basis as the TRS contribution, the expense would be booked to account 6620, then directly assigned to the interstate jurisdiction. This treatment, however, falls short of the Commission's stated intent of allowing the recovery of this contribution in that the majority of the expense for the small rural carriers would be assigned to the Billing & Collection category in the Part 69, rather than to the access elements. We ask the Commission to reject this approach because the majority of costs cannot be recovered through interstate rates.

Account 7370 - Special charges

A fourth alternative would be to assign the contribution to the special charges account similar to the way charitable contributions are handled. This approach also has some merit and we would suggest it as a reasonable alternative to the Account 7240 approach which we recommended above.

Toll Limitation

Section 54.101(a)(9) of the Rules lists toll limitation for qualifying low-income consumers as a service designated for support. Section 54.101(b) of the Rules requires an eligible telecommunications carrier to offer each of the services set for in Section 54.101(a) in order to receive federal universal service support. Subpart E of Part 54 further defines toll limitation as denoting both toll blocking and toll control. We ask the Commission to reconsider this requirement as it is not technically or administratively feasible to provide this service.

Toll Blocking

While it is technically feasible to "block" certain calls, it appears unlikely that an exchange carrier could provide a service that would block only toll in such a way that the customer would have access to emergency services and operator services. If the customer has access to operator services, it is quite likely that companies would be unable to block the originating toll call placed through the operator. Also, some 800 calls which would appear at origination to be a toll free call turn into toll calls after a certain period of time. It is not clear how the exchange carrier would allow only the toll free portion of these calls then cut them off when the toll period starts.

Toll Control

Toll control is a service provided by carriers that allows consumers to specify a certain amount of toll usage that may be incurred on their telecommunications channel per month or per billing cycle. Most rural exchange carriers do not bill for all of the toll providers and, accordingly, would not have access to the information necessary to perform a toll control function. It is not clear what methods and enforcement the FCC plans to prescribe which would effectively relay the required information from all of the interexchange carriers to the exchange carriers on a real time basis. We ask the Commission to determine whether the service is, in fact, technically and administratively feasible. We also ask the Commission to evaluate if it is more appropriate to require each toll provider to offer a limitation service rather than requiring the exchange carrier to monitor all of the charges from all of the carriers, even those for which the LEC does not provide the Billing & Collection service.

Sale or Transfer of Exchanges

It appears that if a rural company purchases a high cost exchange from a non-rural LEC between May 7, 1997 and some point in 1999, the acquiring LEC may be precluded from receiving Universal Service support until the year 2001 or after, even if the acquiring company receives support for its similar properties and the selling company would have received support under the forward looking methodology starting in 1999.

In reviewing the provisions of Paragraph 308 of the Report and Order, it is unclear whether the procedure for developing the support per line is being frozen, or

the dollar amount of support per line is being frozen. We ask the Commission to clarify this issue.

We also ask the Commission to reconsider that aspect of these new rules that would preclude the rural LEC from receiving support after the selling company converts to a forward looking methodology and would have been eligible for support for the rural high cost area. We request that the acquiring company be allowed to get support based on the methodology employed for the exchanges they owned prior to the purchase, or at a minimum, allow the rural LEC to adopt the forward looking methodology for the acquired properties starting in 1999.

New Rural and Insular Cost Companies

The new local switching rules and the long term support rules do not appear to contemplate the situation of a company converting from average schedule to cost, nor does it contemplate a new study area being named for a previously unserved area. We ask that the Commission modify its rules to address this situation in a manner similar to the way the Commission handled the calculation of the subscriber plant factor ("SPF") for companies that did not have calendar year 1981 subscriber line usage ("SLU") data (i.e. in a footnote to Section 36.154(e)(1), the Commission prescribed the use of the initial study period data.)

We also ask the FCC to clarify that new companies serving previously unserved areas or insular areas can join NECA, and be eligible for universal service support under the methodology utilized by incumbent LECs.

Eligibility for Carriers Not Subject to State Commission Jurisdiction

Paragraph 147 of the Report and Order clearly recognizes that some carriers are not subject to the jurisdiction of a state commission. The Commission states that these carriers may still be designated as eligible telecommunications carriers, but it does not clearly identify the agency that will make this designation. We ask the Commission to incorporate rules that allow the agency with regulatory authority over the area being served to make the eligible carrier designation.

Conclusion

In conclusion, we recommend the Commission take the following actions to reconsider and clarify provisions in the CC Docket 96-45 order released on May 8, 1997.

1. When companies are converted to a forward looking cost methodology, the difference between the cost of providing the federally defined services and the affordability benchmark should be funded by the federal universal service fund. If the states add services to the list for intrastate purposes, the state should be responsible for the support requirement related to the additional services. If the state prescribes rates for the base services which do not generate sufficient revenues for the companies to reach the "benchmark", the states should be responsible for establishing state universal service support mechanisms sufficient to cover this shortfall.